

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 NSCE-00 USIE-00 INRE-00 SP-02 AID-05  
EB-08 NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01  
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03  
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O R 101737Z FEB 77

FM AMEMBASSY ROME

TO SECSTATE WASH DC IMMEDIATE 2719

TREAS DEPT WASHDC IMMEDIATE

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY LONDON

ZEN AMCONSUL MILAN 3929

AMCONSUL NAPLES

AMEMBASSY PARIS

USMISSION OECD PARIS

ZEN AMCONSUL FLORENCE

ZEN AMCONSUL GENOA

AMCONSUL PALERMO

TRIESTE

AMCONSUL TURIN

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PASS FRB

C O R R E C T E D C O P Y FOR TEXT PARA THREE

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: RESUMPTION OF IMF STANDBY NEGOTIATIONS

REF: ROME 1940

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1. ANDREOTTI STATED TO THE PRESS FEBRUARY 9 EVENING THAT  
THE IMF IS PREPARED TO RESUME PROMPTLY NEGOTIATIONS ON THE  
ITALIAN STANDBY LOAN BUT THAT HE (ANDREOTTI) PREFERENCES TO  
DELAY UNTIL HE IS CERTAIN THAT MAIN ELEMENTS OF THE DECREE  
LAW ON REDUCTION OF LABOR COSTS HAVE BEEN APPROVED BY  
PARLIAMENT. ANDREOTTI STATEMENT WAS APPARENTLY INTENDED TO  
CLARIFY SITUATION SINCE VARIOUS ITALIAN PRESS REPORTS IN

LAST FEW DAYS HAVE EMPHASIZED THAT ITALY-FUND TALKS ARE STILL SUSPENDED.

2. "CORRIERE DELLA SERA" REPORTS FROM NEW YORK ON FEBRUARY 10 THAT THE FUND HAS NOT YET DETERMINED THE TIMING OR PROCEDURES FOR RESUMING NEGOTIATIONS ON A NEW LOAN FOR ITALY. ACCORDING TO THIS REPORT, FUND TECHNICIANS ARE IN THE PROCESS OF ANALYZING THE MEASURES TAKEN/FEBRUARY 4 BY THE ANDREOTTI GOVERNMENT (REFTEL) AND EXPECT TO GIVE IMF DIRECTOR GENERAL WITTEVEEN AN UPDATED REPORT ON ITALIAN ECONOMIC PROSPECTS FOR 1977 BY THE END OF NEXT WEEK. SHOULD AN AFFIRMATIVE DECISION ON RESUMING NEGOTIATIONS THEN BE TAKEN, AND IMF MISSION WOULD GO TO ROME AROUND THE FIRST OF MARCH. ACCORDING TO THE REPORT, THE FUND CONSIDERS THE LABOR COST MEASURES TAKEN BY THE GOVERNEMNT "A SIGNIFICANT STEP IN THE RIGHT DIRECTION." ON A STRICTLY TECHNICAL LEVEL, HOWEVER, THE UND ECONOMISTS HAD HOPED FOR "MORE EXTENSIVE AND DRASIC MEASURES." THE FUND CONDITIONS FOR THE NEW LLOAN, ACCORDING TO THE REPORT, REMAIN THE SAME AS SET FORYH IN PARIS LAST OCTOBER: REDUCTION IN THE RATE OF INFLATION IN 1977 FROM THE PRESENT 20 PERCENT TO 15-16 PERCENT; REDUCTION OF PUBLIC EXPENDITURE (SIC- ACTUALLY IN TREASURE DEFICIT); AND GAINING CONTROL OVER PROCESS OF EVER-INCREASING LABOR COSTS.

3. CONCERNING US AND GERMAN SUPPORT FOR ITALY, THE ARTICLE STATED THAT THESE GOVERMENTS HAVE NOT INTERVENED WITH THE IMF ON ITALY'S BEHALF AND, MOREOVER, BELIEVE THAT FINANCIAL SUPPORT WILL NOT BE OF ANY SUBSTANTIAL BENEFIT

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TO ITALY WITHOUT A VIGOROUS AND DECISIVE ANTI-INFLATIONARY POLICY. AS EVIDENCE CONFIRMING USG STANCE, THE ARTICLE CITED THE SPEECH BY RICHARD GARDNER (US AMBASSADOR-DESIGNATE TO ROME) TO THE ITALIAN-AMERICAN CHAMBER OF COMMERCE IN NEW YORK ON THE PRECEDING EVENING.

4. IN CONCLUSION, THE ARTICLE STATED THAT WASHINGTON VIEWS THE ITALIAN SITUATION AS WARRANTING A CAUTIOUS BUT NOT PESSIMISTIC STANCE, AND THAT A NEW IMF LOAN MIGHT POSSIBLE CONSIST OF TWO TRANCHES: THE FIRST BEING EXTENDED ON THE BASIS OF MEASURES NOW ADOPTED AND THE SECOND DEPENDENT ON PROGRESS MADE IN THE COURSE OF THE YEAR IN REDUCING THE RATE OF INFLATION.

5. COMMENT. CHARGE D'AFFAIRES CONFIRMED WITH DIPLOMATIC ADVISOR TO THE PRIME MINISTER LA ROCCA THE ANDREOTTI VIEW THAT TIMING OF RESUMPTION OF ITALY-FUND TALKS SHOULD FOLLOW COMPLETION OF PARLIAMENTARY RATIFICATION OF PACKAGE OF LABOR COST MEASURES. PRIME MINISTER EXPECTS

QUICK ACTION, HOWEVER, BY PARLIAMENT, PROBABLY WITHIN  
TWO WEEKS. STRONG FACTOR URGING PARLIAMENT ON IS DE FACTO  
WIAT-AND-SEE ATTITUDE BY LABOR AND MANAGEMENT IN COMPANY  
LEVEL LABOR NEGOTIATIONS WHICH WERE IN PROCESS AT TIME  
DECREE LAW ON LABOR COSTS WAS ENACTED. PROMPT PARLIAMENTARY  
ACTION WOULD MEAN, THEREFORE, THAT ITALY-FUND TALKS COULD  
STILL RESUME TOWARDS END OF FEBRUARY OR EARLY IN MARCH.BEAUDRY

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## Message Attributes

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**Channel Indicators:** n/a  
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